

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REPORT, 2013

Docket No. ACR2013

REPLY COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE

Pursuant to Commission Order No. 1935, the Association for Postal Commerce ("PostCom") hereby submits these reply comments in response to the comments filed by United Parcel Service ("UPS") on the Postal Service's Annual Compliance Report for Fiscal Year 2013 ("FY 2013 ACR"). PostCom submits these comments to second UPS's contention that the Postal Service must do more to properly track the attributable costs of its products, both market dominant and competitive. Specifically, the Postal Service should use Intelligent Mail barcode information and employ a bottom-up costing methodology to better understand cost drivers and allocate costs.

As UPS thoroughly explains, there is little doubt that the Postal Service can do a better job tracking and attributing product costs. UPS notes that the percentage of costs attributed to individual products has dropped significantly since 1998 even though the Postal Accountability and Enhancement Act was expected to increase cost attribution. UPS Comments at 2-4. Particularly troubling are the examples given by UPS of capital expenditures not being attributed at all. *See* UPS Comments at 5 (no portion of \$3 billion in capital expenditures were attributed).

It defies belief that none of the capital expenditures engaged in by the Postal Service over the past 3 years could be attributed to particular products.

PostCom agrees with UPS that the growth in institutional costs over the past years is more likely due to a failure to accurately attribute costs than to any external factors causing institutional and attributable costs to diverge. This inability (or unwillingness) to attribute costs not only impairs the Postal Service's ability to accurately price its products in response to market factors, but, as UPS points out, it carries with it the risk that market dominant products will subsidize competitive products. With the current lack of attribution, neither mailers nor the Commission can determine whether each competitive product is covering the costs attributable to it in accordance with 39 U.S.C. § 3633(a)(2).

As PostCom has discussed in other dockets, a switch from the current top-down costing approach to a bottom-up approach that relies heavily on data generated by the Intelligent Mail barcodes would help alleviate these issues. The primary advantage of using bottom-up costing is that this approach tracks only those costs directly attributable to processing a piece of mail. Unlike the top-down approach, it does not start with a product that already has institutional costs and mark-ups built in, and from which the costs of each level of workshare activity must be abstracted. Bottom-up costing, when developed through IMb and IMpb data, allows for more direct measurement of the activities performed in moving different types of mail through the system, from collection to delivery. This approach allows the Postal Service to determine the cost of the product that is least-worked by the Postal Service and build the costs of products that it works more heavily based on the additional processing steps those pieces actually require. The Postal Service can then price these products so that they cover their measured attributable costs.

In sum, the Postal Service must do a better job of tracking and attributing costs. It is impossible for the Postal Service to rationally price its products if it does not know the costs incurred by those products. Similarly, it is impossible for the Commission and mailers to exercise oversight of those prices, including whether market dominant products are improperly subsidizing competitive products, if the Postal Service is not properly attributing costs and making sufficient information available for the Commission to review. Accordingly, PostCom joins UPS in encouraging the Commission “to accelerate and expand its efforts to improve attributable costing.” UPS Comments at 14.

Respectfully submitted,

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